

A REPORT TO INDIANA CITIZENS ON THE STATE'S FINANCES

*Volume II
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<http://www.in.gov/auditor>



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Dear Indiana Citizens:

As Indiana government enters a new biennial budget cycle, I am pleased to present to you our semi-annual Report to Indiana Citizens on the State's Finances. Indiana ended the 2003 fiscal year on June 30, 2003, with a General Fund and Property Tax Replacement Fund Surplus of \$689,706,127. This was again only possible with significant transfers and payment delays from one fiscal year into the next, and so should not necessarily be viewed as the result of prudent fiscal management.

Revenue forecasters overestimated state revenues by a total of \$2.241 billion dollars over the past three fiscal years. That is an average of \$747 million per year in projected revenues that never materialized. Because these forecasts are relied upon in preparing the state's budget, excessive forecasts seriously hinder the ability to create a responsible state budget. The information on pages four and five of this Report details the Surplus, Surplus projections, actual revenues, and revenue forecasts for the past three fiscal years and the next biennium.

Over the past few years we have focused this report in part on the decline in the Surplus from its 1999 high of nearly \$2 billion. Much of that data is again included in this report. Our normal analysis of the Surplus may be found on pages two and three along with tax revenue trends for sales taxes, individual income taxes, and corporate income taxes on page seven.

In response to many inquiries from people all across Indiana, page six contains information new to this Report regarding state financial support to Indiana State Supported Colleges and Universities. This data on Indiana's commitment to higher education is enlightening.

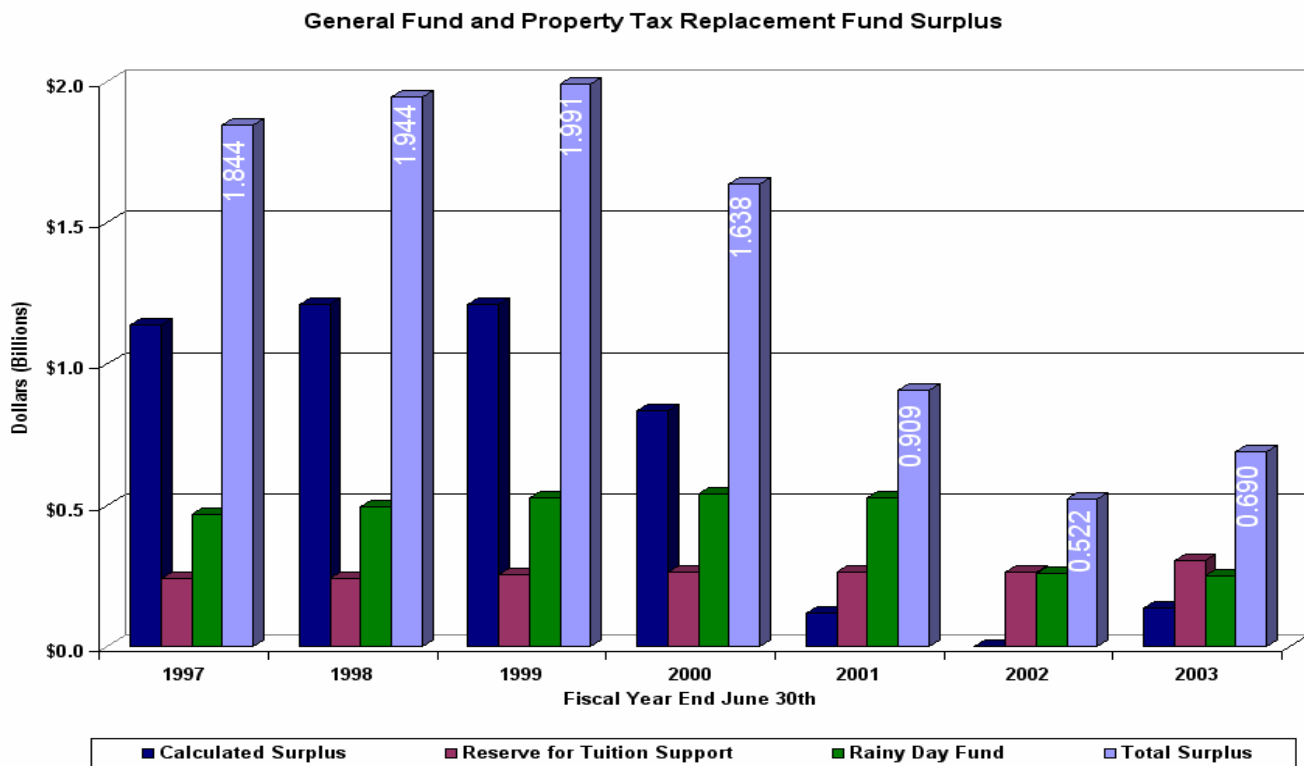
If you have questions or comments about this publication or its contents, please e-mail me at comments@audlan.state.in.us, or call (317) 232-3300. You may also view this report along with other valuable information on our website at www.in.gov/auditor.

Sincerely,
Connie Nass
Auditor of State

Cash and Investment Balances (all funds) as of June 30, 2003

	Accounts Used In Calculating The Surplus	Accounts Not Used In Calculating The Surplus	Total All Funds
General Fund Cash and Investments	\$ 449,454,563	\$ 579,339,793	\$ 1,028,794,357
Rainy Day Fund	248,141,592		248,141,592
Total General Fund Cash and Investments	\$ 697,596,155	\$ 579,339,793	\$ 1,276,935,949
Non General Fund Cash and Investments		2,230,311,390	2,230,311,390
Grand Total All Funds Cash and Investments	\$ 697,596,155	\$ 2,809,651,184	\$ 3,507,247,339

General Fund and Property Tax Replacement Fund Surplus



* A \$100 million Medicaid Reserve that existed only on June 30, 2001 is included in the Calculated Surplus in this graph for presentation purposes.

For budgetary purposes, Indiana State government's "General Fund and Property Tax Replacement Fund Surplus" is also referred to as the Surplus. The Surplus is calculated monthly and reported to the State Budget Agency and the Indiana General Assembly.

This graph shows the fiscal year-end Surplus for 1997 through 2003. The Surplus decreased from a high of \$1,990,785,908 in 1999 to \$522,005,889 in 2002 before increasing slightly in 2003 to \$689,706,126. The graph illustrates the three components of the Surplus which are the "Calculated Surplus" (Surplus excluding reserve components), the "Reserve for Tuition Support", and the "Rainy Day Fund."

The 2002 Surplus includes \$373.7 million in education payment delays, and the 2003 Surplus includes education, property tax replacement credit and homestead credit payment delays of \$661.9 million.

The 2003 Surplus is greater than the 2002 Surplus for several reasons:

- The State Budget Agency moved \$65,000,000 in County Option Income Tax (COIT) related money from General Fund trust account titled "COIT 1984 Earnings" to a General Fund account titled "Adjustment to Surplus," allowing that money to be included in the Surplus calculation.
- A \$275,551,526 payment of property tax replacement credit and homestead credit to counties was shifted from May to July under the budget signed by the Governor, pushing these payments into fiscal year 2004.
- \$42,909,960 was transferred from non-reverting accounts to the General Fund pursuant to an April 2002 Board of Finance order.

Without these three items, which total \$381,461,486, the calculated surplus would have been negative and the total Surplus for FY 2003 would have been smaller than the total Surplus for FY 2002.

General Fund and Property Tax Replacement Fund Surplus (Continued)

In examining the *State of Indiana General Fund and Property Tax Replacement Fund Surplus Calculation* on page 4 of this publication, you will see that the fiscal year 2004 forecast revenue is \$10.693 billion and total appropriations are \$11.281 billion. Appropriations therefore exceed projected revenues by \$588 million for the new fiscal year.

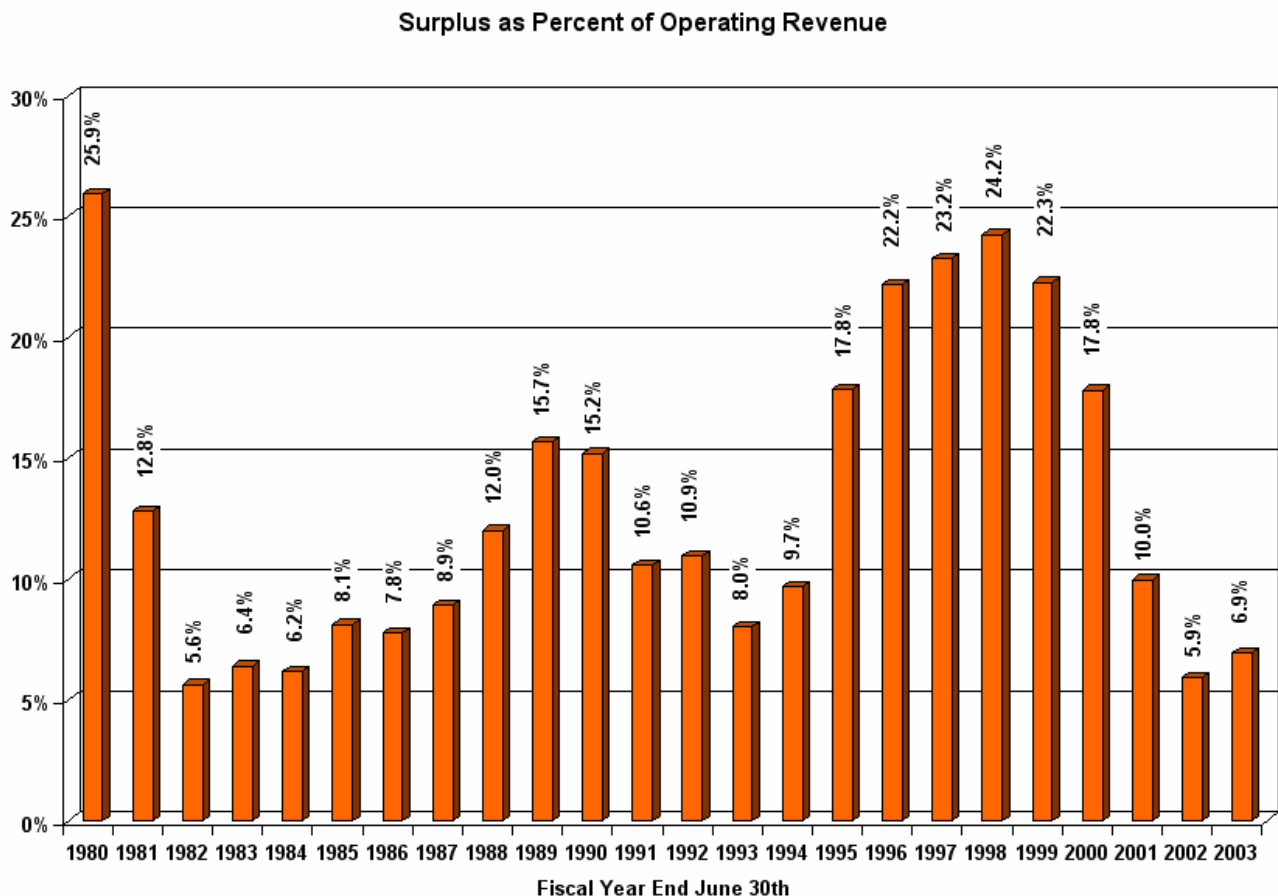
The Rainy Day Fund decreased due to an increase in outstanding loans.

A two-year comparison of the components of the General Fund and Property Tax Replacement Fund Surplus is shown below.

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Difference</u>
Calculated Surplus	\$ -	\$ 136,564,535	\$ 136,564,535
Reserve for Tuition Support	265,000,000	305,000,000	40,000,000
Rainy Day Fund	257,005,889	248,141,592	(8,864,297)
Total Surplus	<u>\$522,005,889</u>	<u>\$689,706,127</u>	<u>\$167,700,238</u>

Surplus as Percent of Operating Revenue

This graph shows the percentage relationship between the Surplus and the General Fund and Property Tax Replacement Fund operating revenues. This ratio is an important indicator of the financial health of the State because it is a measure of the State's ability to handle unexpected expenses or revenue shortfalls.



Surplus Calculation

State of Indiana General Fund and Property Tax Replacement Fund

Fiscal Years 2001, 2002, 2003, 2004, and 2005
(Dollars in Millions and Presented on a Cash Basis)

	Actual FY 2000-01	Actual FY 2001-02	Actual FY 2002-03	Forecast FY 2003-04	Forecast FY 2004-05
Resources:					
Working Balance at July 1	\$ 832.6	\$ 18.6	\$ -	\$ 136.6	\$ 0.3
Current Year Resources					
Forecast Revenue	9,052.0	8,708.9	9,880.1	10,692.5	11,192.3
Disproportionate Share Federal Revenue	70.9	87.0	65.0	56.8	57.7
Enrolled Acts - 2003				105.6	42.8
Other Revenue & Transfers	149.7	973.4	500.4	415.4	122.9
Total Current Year Resources	<u>\$ 9,272.6</u>	<u>\$ 9,769.3</u>	<u>\$ 10,445.5</u>	<u>\$ 11,270.3</u>	<u>\$ 11,415.7</u>
Total Resources	<u>\$ 10,105.2</u>	<u>\$ 9,787.9</u>	<u>\$ 10,445.5</u>	<u>\$ 11,406.9</u>	<u>\$ 11,416.0</u>
Uses: Appropriations, Expenditures, and Reversions:					
Appropriations:					
Budgeted Appropriations:	\$ 10,159.3	\$ 10,211.9	\$ 11,000.1	\$ 11,280.7	\$ 11,505.8
Budget Adjustments and Transfers	30.2	94.8	(82.3)	176.3	115.8
Reversions:	(102.9)	(145.1)	(320.7)	(25.0)	(185.4)
Total Appropriations & Expenditures	<u>\$ 10,086.6</u>	<u>\$ 10,161.6</u>	<u>\$ 10,597.1</u>	<u>\$ 11,432.0</u>	<u>\$ 11,436.2</u>
Payment Delays					
Higher Education Allotment	\$ -	\$ (94.2)	\$ (2.2)	\$ (2.2)	\$ (2.9)
Tuition Support Distribution	-	(279.5)	(10.4)	(3.2)	(3.8)
Property Tax Replacement Credit			(275.6)	(20.0)	(13.8)
Total Payment Delays	<u>\$ -</u>	<u>\$ (373.7)</u>	<u>\$ (288.2)</u>	<u>\$ (25.4)</u>	<u>\$ (20.5)</u>
Total Net Uses:	<u>\$ 10,086.6</u>	<u>\$ 9,787.9</u>	<u>\$ 10,308.9</u>	<u>\$ 11,406.6</u>	<u>\$ 11,415.7</u>
Calculated Surplus at June 30	<u>\$ 18.6</u>	<u>\$ 0.0</u>	<u>\$ 136.6</u>	<u>\$ 0.3</u>	<u>\$ 0.3</u>
Reserved Balances					
Medicaid Reserve	\$ 100.0	\$ -	\$ -	\$ -	
Tuition Reserve	265.0	265.0	305.0	305.0	305.0
Rainy Day Fund	525.1	257.0	248.1	245.4	186.9
Total Surplus	<u>\$ 908.7</u>	<u>\$ 522.0</u>	<u>\$ 689.7</u>	<u>\$ 550.7</u>	<u>\$ 492.2</u>
Payment Delay Liability	N/A	\$ (373.7)	\$ (661.9)	\$ (687.3)	\$ (707.8)

The Surplus is listed on the line labeled Total Surplus. One could make the case that the Payment Delay Liability should be subtracted from the Total Surplus to determine the Surplus.

The Surplus is calculated by starting with the prior year's Calculated Surplus on June 30. Total Current Year Resources are added to determine the Total Resources available. Total Payment Delays are subtracted from Total Appropriations & Expenditures and the result is Total Net Uses. Total Net Uses is then subtracted from the Total Resources to arrive at the Calculated Surplus for the new fiscal year. Finally, add the Reserved Balances to the Calculated Surplus to arrive at the Total Surplus.

State of Indiana Revenue History and Forecast

Fiscal Years 2001, 2002, 2003, 2004, and 2005
 Forecasts Prepared by the Economic Forecasting Committee
 (Dollars in Millions and Presented on a Cash Basis)

	12/15/99 Forecast FY 2000-01	Actual FY 2000-01	Difference	04/12/01 Forecast FY 2001-02	Actual FY 2001-02	Difference
<u>General Fund</u>						
Sales Tax	\$ 2,210.9	\$ 2,194.8	\$ (16.1)	\$ 2,315.5	\$ 2,232.6	\$ (82.9)
Individual Income Tax	4,085.1	3,779.8	(305.3)	4,037.0	3,540.8	(496.2)
Corporate Income Tax	1,072.2	704.0	(368.2)	824.0	626.3	(197.7)
Subtotal	\$ 7,368.2	\$ 6,678.6	\$ (689.6)	\$ 7,176.5	\$ 6,399.7	\$ (776.8)
Cigarette Tax	\$ 52.3	\$ 54.0	\$ 1.7	\$ 55.4	\$ 55.0	\$ (0.4)
Alcoholic Beverage Tax	12.4	13.1	0.7	13.0	14.0	1.0
Inheritance Tax	140.0	163.7	23.7	160.0	141.9	(18.1)
Insurance	160.0	145.8	(14.2)	152.5	176.2	23.7
Interest	165.0	141.0	(24.0)	130.0	72.2	(57.8)
Other	190.0	205.3	15.3	195.0	237.9	42.9
Subtotal	\$ 719.7	\$ 722.9	\$ 3.2	\$ 705.9	\$ 697.2	\$ (8.7)
Total General Fund	\$ 8,087.9	\$ 7,401.5	\$ (686.4)	\$ 7,882.4	\$ 7,096.9	\$ (785.5)
<u>Property Tax Replacement Fund</u>						
Sales Tax	\$ 1,523.8	\$ 1,499.2	\$ (24.6)	\$ 1,569.0	\$ 1,528.8	\$ (40.2)
Individual Income Tax	N/A	N/A	N/A	N/A	N/A	N/A
Corporate Income Tax	30.0	151.3	121.3	94.0	83.1	(10.9)
Gaming Tax	N/A	N/A	N/A	N/A	N/A	N/A
Total Property Tax Replacement Fund	\$ 1,553.8	\$ 1,650.5	\$ 96.7	\$ 1,663.0	\$ 1,611.9	\$ (51.1)
Total General Fund and Property Tax Replacement Fund	\$ 9,641.7	\$ 9,052.0	\$ (589.7)	\$ 9,545.4	\$ 8,708.8	\$ (836.6)

	04/12/01 Forecast FY 2002-03	Actual FY 2002-03	Difference	04/10/03 Forecast FY 2003-04	04/10/03 Forecast FY 2004-05
<u>General Fund</u>					
Sales Tax	\$ 2,423.2	\$ 2,270.4	\$ (152.8)	\$ 2,421.6	\$ 2,540.2
Individual Income Tax	4,290.0	3,366.8	(923.2)	3,301.7	3,468.4
Corporate Income Tax	845.6	670.4	(175.2)	558.8	578.4
Subtotal	\$ 7,558.8	\$ 6,307.6	\$ (1,251.2)	\$ 6,282.1	\$ 6,587.0
Cigarette Tax	\$ 55.5	\$ 286.6	\$ 231.1	\$ 319.1	\$ 320.6
Alcoholic Beverage Tax	12.9	13.9	1.0	13.3	13.2
Inheritance Tax	160.0	198.0	38.0	120.0	120.0
Insurance	147.4	175.2	27.8	177.1	168.7
Interest	120.0	36.2	(83.8)	30.0	30.0
Other	195.0	193.8	(1.2)	215.0	215.0
Subtotal	\$ 690.8	\$ 903.7	\$ 212.9	\$ 874.5	\$ 867.5
Total General Fund	\$ 8,249.6	\$ 7,211.3	\$ (1,038.3)	\$ 7,156.6	\$ 7,454.5
<u>Property Tax Replacement Fund</u>					
Sales Tax	\$ 1,642.0	\$ 1,902.0	\$ 260.0	\$ 2,461.4	\$ 2,581.9
Individual Income Tax	N/A	277.3	N/A	537.5	564.6
Corporate Income Tax	95.4	58.8	(36.6)	N/A	N/A
Gaming Tax	N/A	430.7	N/A	537.0	591.3
Total Property Tax Replacement Fund	\$ 1,737.4	\$ 2,668.8	\$ 223.4	\$ 3,535.9	\$ 3,737.8
Total General Fund and Property Tax Replacement Fund	\$ 9,987.0	\$ 9,880.1	\$ (814.9)	\$ 10,692.5	\$ 11,192.3

This table gives a history of projected and actual revenues for fiscal year 2001 through fiscal year 2003. The amounts for fiscal year 2004 and fiscal year 2005 are from the forecasts that were used to prepare the biennial budget. These are the revenues that collected in the funds used in calculating the Surplus.

It is important when reviewing the *Surplus Calculation State of Indiana General Fund and Property Tax Replacement Fund* statement on page 4 of this report to keep in mind the importance of accurate revenue forecasting. When revenue projections are too high, the legislature, which must rely upon projections in drafting a budget, enter the budget process using a benchmark that all but guarantees a deficit. The projections are prepared by the Economic Forecasting Committee and for the past three fiscal years the original forecast has overestimated revenues by an average of \$747 million per year.

Indiana State Supported Colleges and Universities Statement of Activities

For the Fiscal Year Ended June 30, 2002
(dollars expressed in thousands)

	Indiana University	Purdue University	Ivy Tech State College	Ball State University	Indiana State University	University of Southern Indiana	Vincennes University	Total
Revenues:								
Charges for Services (1)	\$ 922,417	\$ 499,926	\$ 73,381	\$ 118,253	\$ 57,595	\$ 36,557	\$ 30,710	\$ 1,738,839
Operating Grants & Contributions	338,963	213,993	74,689	48,882	21,929	10,497	27,240	736,193
Capital Grants & Contributions	41,093	57,575	4,091	1,890	3,928	175	127	108,879
Payments from the State of Indiana	502,004	348,335	114,016	130,717	85,140	35,520	34,821	1,250,553
Interest & Investment Earnings	20,556	(6,897)	1,763	7,895	4,393	1,257	3,384	32,351
Other Income (Expense)	43,245	103,999	(549)	4,000	3,182	683	294	154,854
Total Revenues	\$ 1,868,278	\$ 1,216,931	\$ 267,391	\$ 311,637	\$ 176,167	\$ 84,689	\$ 96,576	\$ 4,021,669
Expenses	(1,789,823)	(1,128,168)	(257,355)	(288,047)	(173,383)	(84,602)	(88,109)	(3,809,487)
Net Revenue	\$ 78,455	\$ 88,763	\$ 10,036	\$ 23,590	\$ 2,784	\$ 87	\$ 8,467	\$ 212,182
Total Net Assets	\$ 1,600,860	\$ 1,909,366	\$ 171,442	\$ 472,199	\$ 227,107	\$ 59,496	\$ 114,883	\$ 4,555,353

(1) Charges for Services include items such as tuition payments and residence hall fees.

The State of Indiana provides operating funding to seven state colleges and universities. The fall 2002 enrollment for the seven colleges and universities totaled 206,881.

The net asset balances reflect the difference between total assets and total liabilities of each entity. Of the \$4,555,353,000 in net assets, \$1,034,766,000 represents unrestricted net assets. \$2,260,480,000 of net assets were invested in capital assets, net of related debt. The balance of net assets, \$1,260,107,000 are restricted for instruction and research, student aid, auxiliary enterprises, construction, and other purposes.

Foundations that exist to support the colleges and universities are not included in the financial information listed on this page.

	2001-2002 Full-time Undergraduate Tuition (a)	2002-2003 Full-time Undergraduate Tuition (a)	Fall 2002 Full Time Equivalent Enrollment (b)	FY 2002 Payments from the State of Indiana (in thousands)	FY 2002 State Payments Per Full Time Equivalent Student	Percent Out of State/ International	
Indiana University			75,360	\$ 502,004	\$ 6,661	18%	(5)
Resident (2)	\$ 4,734	\$ 5,315					
Non-Resident (2)	\$ 14,469	\$ 15,925					
Purdue University			52,881	\$ 348,335	\$ 6,587	38%	(4)
Resident (3)	\$ 4,164	\$ 4,580 (1)					
Non-Resident (3)	\$ 13,872	\$ 15,260 (1)					
Ivy Tech State College			36,754	\$ 114,016	\$ 3,102	2%	(4)
Resident	\$ 1,986	\$ 2,264					
Ball State University			18,059	\$ 130,717	\$ 7,238	10%	(4)
Resident	\$ 4,099	\$ 4,720					
Non-Resident	\$ 10,975	\$ 12,500					
Indiana State University			10,047	\$ 85,140	\$ 8,474	14%	(5)
Resident	\$ 3,794	\$ 4,216					
Non-Resident	\$ 9,396	\$ 10,376					
University of Southern Indiana			7,716	\$ 35,520	\$ 4,603	12%	(4)
Resident	\$ 3,143	\$ 3,525					
Non-Resident	\$ 7,605	\$ 8,423					
Vincennes University			6,064	\$ 34,821	\$ 5,742	22%	(4)
Resident	\$ 2,601	\$ 2,957					
Non-Resident	\$ 6,340	\$ 7,065					

(a) Source: Indiana Commission for Higher Education

(b) Source: Indianapolis Business Journal's 2003 Book of Lists

(1) Plus \$1,000 new student fee

(2) Bloomington Campus

(3) West Lafayette Campus

(4) Fall 2002

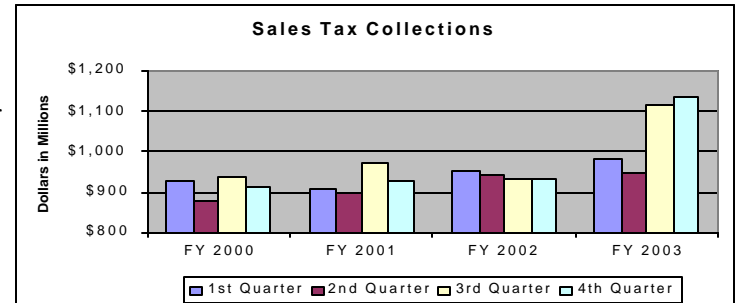
(5) 2002-2003 School Year

General and Property Tax Replacement Fund Revenue Trends (Cash Basis)

Sales Tax

Sales, corporate, and individual income taxes made up over 86% of the General Fund and Property Tax Replacement Fund revenue for fiscal year 2003. Over the past three years, sales tax collections have increased. The 10.9% increase in sales tax collections for fiscal year 2003 is largely due to an increase in the sales tax rate from 5% to 6%. When that rate increased effective December 1, 2002, it was estimated that sales tax collection would rise \$393 million in fiscal year 2003. The fiscal year 2003 sales tax collections actually went up \$411.2 million and were \$478.7 million (13.0%) greater than fiscal year 2001 collections. Sales tax collections for fiscal year 2003 finished \$52.2 million (1.2%) behind the most recent revenue forecast issued on April 10, 2003 by the Economic Forecast Committee.

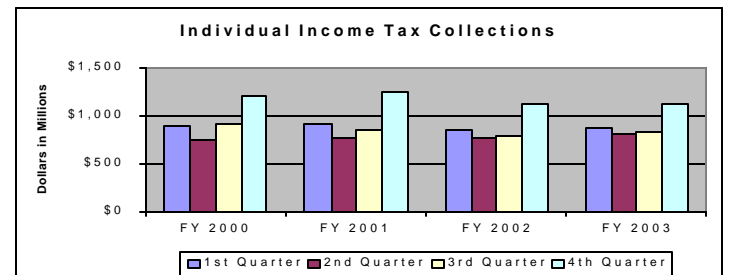
Sales Tax (Dollars in Millions)				
	FY 2000	FY 2001	FY 2002	FY 2003
1st Quarter	928.1	903.9	953.1	978.9
2nd Quarter	877.1	895.3	942.3	945.6
3rd Quarter	936.9	970.1	933.3	1,111.7
4th Quarter	909.3	924.6	932.7	1,136.4
Total	3,651.4	3,693.9	3,761.4	4,172.6



Individual Income Tax

Individual income tax collections for fiscal year 2003 increased by \$103.5 million (2.9%). Collections for each quarter of fiscal year 2003 exceeded collections for the same quarter of fiscal year 2002. Even though the collections increased over the prior year, total collections nevertheless fell short of the April 10, 2003 revised forecast by \$71.3 million (1.1%) and were \$645.7 million (15.1%) below the April 12, 2001 forecast used to prepare the original fiscal year 2003 budget. Individual income tax collections lagged behind fiscal year 2000 and fiscal year 2001 collections by \$109 million (2.9%) and \$135.5 million (3.6%) respectively.

Individual Income Tax (Dollars in Millions)				
	FY 2000	FY 2001	FY 2002	FY 2003
1st Quarter	901.5	912.6	860.2	884.7
2nd Quarter	745.5	762.1	770.8	799.7
3rd Quarter	906.5	859.3	793.7	832.8
4th Quarter	1,199.8	1,245.8	1,116.1	1,127.1
Total	3,753.3	3,779.8	3,540.8	3,644.3



Corporate Income Tax

The downward trend in corporate income tax collections that began in fiscal year 2001 was reversed by an increase in collections in fiscal year 2003. The increase for fiscal year 2003 collections was \$19.7 million (2.8%). Collections for fiscal year 2003 exceeded the April 10, 2003 revised forecast by \$178.8 million (32.5%). However fiscal year 2003 collections were \$211.9 million (22.5%) below the April 12, 2001 forecast used in preparing the original fiscal 2003 budget. Even though fiscal year 2003 collections exceeded the amount collected in fiscal year 2002, they were still below fiscal year 2000 and fiscal year 2001 collections by \$256.2 million (26.0%) and \$126.2 million (14.8%), respectively. Several changes were made to corporate income tax provisions during the 2002 special session of the General Assembly. At the time the legislation was passed the estimated fiscal impact of those changes for fiscal year 2003 was a decrease of \$47 million from the prior forecast.

Corporate Income Tax (Dollars in Millions)				
	FY 2000	FY 2001	FY 2002	FY 2003
1st Quarter	220.4	205.6	189.8	132.3
2nd Quarter	199.7	187.9	164.5	140.5
3rd Quarter	108.6	75.7	44.2	50.2
4th Quarter	456.6	386.1	310.9	406.1
Total	985.3	855.3	709.4	729.1

